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Replacing Lost or Stolen Government Checks: Expedited Service versus Costs and Risks. GGD-77-65; B-164031(4). July 19, 1977. 18 pp. + appendix (2 pp.).

Report to Rep. Elizabeth Holtzman; by Elmer B. Staats, Comptroller General.

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Congressional Relevance: Rep. Elizabeth Holtzman.

The Department of the Treasury and other agencies are developing data on the timeliness, costs, and risks of various alternatives for replacing lost or stolen checks with a minimum of hardship for the recipients and without incurring excessive costs and risks for the Government. Findings/Conclusions: Because the Supplemental Security Income Program serves the needy, Treasury expedites its claims for replacement checks. Safeguards built into the regular check replacement system to prevent double payments are bypassed. Check replacement time averaged 12 days for claims receiving expedited service. A new system implemented in April 1977 was to have replacement checks delivered within 4 days after a claim is filed, but it is too early to tell if the system will meet this goal. Check replacement time for other programs, including Social Security and Veterans, ranged from an average of 22 to 85 days. Treasury is taking steps to expedite the normal check replacement process, but the resulting replacement time frame may still not be satisfactory. Providing administrative machinery needed to expedite check processing in these other agencies would entail an undetermined expense. Bypassing the safeguard of determining whether an original check has been cashed would result in unnecessary replacement checks being issued in these programs. About 30% of the claims filed in 1976 were either abandoned or denied. Recovering duplicate payments could be slow and uncertain. (SC)

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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Replacing Lost Or Stolen Government Checks: Expedited Service Versus Costs And Risks

Department of the Treasury

How to speed up check-replacement processing, without incurring excessive costs and risks, is a problem the Government is trying to solve.

Data on the timeliness, costs, and risks of various alternatives is not available and must be developed. Electronic funds transfer and other means of assuring that the right person gets Federal funds must be studied. Treasury and other agencies involved are doing this.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(4)

The Honorable Elizabeth Holtzman
House of Representatives

Dear Ms. Holtzman:

In response to your request, we reviewed the Government's procedures for replacing lost or stolen Government checks.

This report describes the procedures of replacing checks and discusses ways of expediting the replacement time. Since we have undertaken this review, the Department of the Treasury and the Social Security Administration are doing this.

We have discussed the report with Treasury officials, and they generally concur with its contents.

We are sending copies of the report to the Secretary of the Treasury.

The report contains no recommendations, but because numerous bills on this subject have been introduced in the 95th Congress it could be of interest to other Members and various committees of Congress. Therefore, we will contact your office to arrange for release of the report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Stroh".

Comptroller General
of the United States

REPORT OF THE
COMPTROLLER GENERAL

REPLACING LOST OR STOLEN
GOVERNMENT CHECKS:
EXPEDITED SERVICE VERSUS
COSTS AND RISKS
Department of the Treasury

D I G E S T

Replacing lost or stolen checks presents the Government the dilemma of minimizing recipients' hardship without incurring excessive costs and risks.

Representative Elizabeth Holtzman was concerned that:

--Supplemental security income recipients (the aged, blind, and handicapped) had to wait 3 to 5 weeks for a replacement check, even though such claims were to receive expedited processing.

--Other Federal program recipients could not get expedited check replacement, even though possible double payments could be recouped from future monthly benefits.

The Department of the Treasury and other agencies are developing data on the timeliness, costs, and risks of various alternatives. Electronic funds transfer and the cycling of checks are being promoted by Treasury, so the rightful person will be paid. Other means are also being studied.

REPLACING SUPPLEMENTAL
SECURITY INCOME CHECKS

Because the Supplemental Security Income Program serves the needy, Treasury expedites its claims for replacement checks. Safeguards built into the regular check replacement system to prevent double payments are bypassed.

Treasury is prohibited by law from issuing a replacement check without first determining if the payee cashed the original. Under expedited processing, Treasury presumes the

original check is outstanding if a claim is made in the same month that the check was issued.

A Social Security Administration study showed check replacement time averaged 12 days for claims receiving expedited service.

For the 12-month period ending June 30, 1976, the agency's automated system processed 210,000 claims of which 121,000 were sent to Treasury for issuance of replacement checks. The majority of claims not sent to Treasury were rejected because of errors. Of those sent, 50,000 were not initiated in the same month in which the original check was issued.

In April 1977 a new system was implemented to have replacement checks delivered within 4 days after a claim is filed. It is too early to tell if the system will meet this goal.

CHECK REPLACEMENT FOR OTHERS

Other programs--Social Security and Veterans--provide recurring monthly payments to beneficiaries. For these programs, check replacement time for the 12-month period ending June 30, 1976, ranged from an average of 22 to 85 days. Treasury is taking steps to expedite the normal check replacement process, but the resulting time frames may still not be satisfactory to those who rely on their checks for day-to-day living expenses. As of March 1977, 8 bills on this subject had been introduced in the 95th Congress, most requiring that replacement time frames for Social Security claims be 10 days or less. Treasury officials assume that the time frame will be applicable to all claimants receiving recurring payments, including those in the Civil Service Retirement and Railroad Retirement programs. There are problems in achieving this short time frame.

First, Treasury maintains that agencies other than Social Security do not have the administrative machinery needed to expedite check

processing. Providing the needed capability would entail an additional undetermined expense.

Second, bypassing the safeguard of determining whether an original check has been cashed before Treasury issues a replacement or otherwise expedites the replacement process, will result in unnecessary replacement checks being issued and probably some payees cashing both the original and the replacement.

Treasury received 1 million claims for replacement checks in 1976. In 510,000 cases, the original checks were cashed. Of these claimants, 320,000 (63 percent) either abandoned their claims or had them denied. Had Treasury expedited processing on these claims, unnecessary replacement checks probably would have been issued.

Recovering duplicate payments could be slow and uncertain. Before deductions are made from future payments, the claimant is told and given an opportunity to challenge the action. For those claimants in critical need, repayments would probably be spaced over many months.

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ABBREVIATIONS

GAO	General Accounting Office
SSA	Social Security Administration
SSI	supplemental security income
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

The Government issued almost 800 million checks in the 12-month period ending June 30, 1976. ^{1/} The Department of the Treasury received 1 million requests for replacing these checks.

Treasury's Division of Check Claims in the Bureau of Government Financial Operations is responsible for settling claims resulting from Government checks being forged, lost, stolen, destroyed, or mutilated. It handles all claims for nonreceipt of Government checks, including claims sent to the Department of Defense, the Postal Service, and several other agencies which issue their own checks.

THE CHECK CLAIMS PROCESS

Normally, the claimant files a claim for nonreceipt of a check to the agency that authorized it. The authorizing agency determines that the claimant was entitled to a check and forwards certain information to the Treasury disbursing office that issued the check.

From the information submitted, the disbursing office first determines if the check has been returned as undeliverable; if not, it then identifies the check and symbol number and prepares a stop payment order. This stop payment order and the other information is sent to the Division of Check Claims to determine whether the check had been paid. If the check is outstanding--not cashed--which it is in 48 percent of the cases--Treasury immediately authorizes a replacement check ^{2/} and issues the stop payment order to "flag" the original so that if the original is cashed later, the Government can take steps to recover the money.

If the check was paid--about 52 percent of the cases--Treasury tries to determine whether the claimant shared in its proceeds. To do this, the paid check is retrieved from a records center. A copy of the paid check and a claim form are sent to the claimant.

If the claim form is returned, an adjudicator compares signatures on the claim form and check. If the check appears forged, a replacement check is authorized and the case is

^{1/}Hereafter all references to fiscal year 1976 refer to the 12-month period ending June 30, 1976.

^{2/}Any check issued to settle a claim of nonreceipt for previously issued Government check.

sent to the Secret Service for investigation. In cases where the signatures are similar, the claims are denied. In some cases replacement checks are not authorized until after a Secret Service investigation.

Claims on paid checks must be filed within 6 years after the issuance date of the original check, but claims on outstanding checks may be filed anytime.

CHECK CLAIMS VOLUME

In fiscal year 1976 Treasury processed about 982,000 claims and authorized about 465,000 replacement checks. The following schedule shows the number of checks issued, claims received, and replacement checks issued by Treasury for fiscal year 1976.

<u>Treasury</u>			
<u>Check and Claims Volume</u>			
<u>FY 1976</u>			
	<u>Original checks issued</u>	<u>Estimated no. of claims (note a)</u>	<u>Estimated replacement checks issued (note a)</u>
Social Security Admin- istration (SSA):			
Regular social security pro- grams	360,640,000	416,000	163,000
Supplemental security income (SSI)	53,827,000	127,000	<u>b/97,000</u>
Veterans Administration (VA)	97,089,000	112,000	43,000
Other agencies	<u>263,820,000</u>	<u>327,000</u>	<u>162,000</u>
 Total	 <u>775,375,000</u>	 <u>982,000</u>	 <u>465,000</u>

a/Estimates of claims and replacement checks are based on the stop payment orders prepared and received by the disbursing offices in FY 1976.

b/Includes 77,000 claims which received expedited check replacement service. (See p. 7.)

The number of claims has increased about 180 percent since fiscal year 1965, although the number of original checks issued has increased only 85 percent.

SCOPE OF REVIEW

We reviewed Treasury's policies, procedures, and practices for processing check claims. We examined pertinent legislation; studies on claims processing made by SSA and Treasury; and interviewed Treasury, SSA, and Veterans Administration officials. We made a statistical analysis of over 100 randomly selected outstanding check claim cases and over 75 paid check claim cases to determine how long it takes to process a claim. Our review was conducted primarily at Treasury Headquarters in Washington, D.C.

CHAPTER 2

REPLACING GOVERNMENT CHECKS--HOW TIMELY?

Check replacement time varies depending on the authorizing agency, the existence of an agreement for special processing between Treasury and the authorizing agency, and whether the check is outstanding or has been paid.

What constitutes an adequate time frame? As of March 1977, 8 bills had been introduced in the 95th Congress, most of which required that replacement time frames be 10 days or less for SSA claims. Treasury officials assume that this time frame would be applicable to all claimants receiving recurring payments, including those in the Civil Service Retirement and Railroad Retirement programs.

Most Government checks are issued to people receiving recurring payments. For example, 54 percent of the checks issued in fiscal year 1976 were to social security recipients and about 13 percent to recipients of VA program benefits. Most social security checks provide monthly benefits to (1) retired workers and their dependents, survivors of deceased workers, including disabled widows and widowers and certain uninsured persons, (2) disabled workers and their dependents, and (3) Medicare program beneficiaries. Checks for supplemental security income benefits are issued to needy aged persons 65 and over and needy blind and totally disabled persons without regard to age. Veterans Administration checks provide compensation, pension, and education benefits. Recurring payment checks also are issued to Government retirees.

These payments are the sole source of income for many recipients. To others, it is supplemental income which is depended upon heavily to meet monthly expenses. Delays in these payments could cause immediate hardships. In fiscal year 1976, Treasury received 7,900 congressional inquiries regarding claims for nonreceipt of checks by constituents.

NO SYSTEMWIDE MEASUREMENT OF CHECK REPLACEMENT TIME

There is no system for reliably measuring overall claim processing time. Studies comparing and analyzing time used to process check claims for various agencies are not regularly made. Our study showed that the average check replacement times ranged from 22 days for an outstanding VA check to 85 days for a paid social security check.

Treasury

Treasury's experience with 905,000 check claims (excluding 77,000 SSI claims receiving expedited processing) in fiscal year 1976 shows the following:

510,000

Original checks cashed

283,000	claimants canceled or abandoned claims
37,000	claims denied
74,000	valid claims, replacement checks issued
<u>a/116,000</u>	claims pending and other disposition

395,000

Original checks outstanding

314,000	replacement checks issued
71,000	claimants canceled or abandoned claim
<u>a/10,000</u>	other dispositions

a/Treasury does not have further breakdown.

In addition, many agencies weed out claims before they reach Treasury.

Our analysis of a sample of claims that had been settled by the Division of Check Claims during fiscal year 1976 showed that, depending upon the authorizing agency (and excluding SSI checks), Treasury averaged from 12 to 16 days to replace a check that was outstanding and from 68 to 72 days to replace a check that had been paid. This does not include mailing time to the claimant which could add 1 to 3 days or more. Included in the processing time for a paid check claim is an average of 23 days for the claimant to fill out a claim and return it to the Division.

In October 1975 the Division of Check Claims established a monthly reporting system to identify the time taken by the Division to process a claim. The system, however, does not measure the processing time of the disbursing offices or the agencies. In March 1977 Treasury established a maximum of 49 days for processing paid check claims. This goal excludes those sent to Secret Service for investigation before issuing a replacement check.

SSA

Regular social security program

In fiscal year 1976, 360 million checks were issued to recipients of regular social security program benefits. About 416,000 claims--1 for every 875 checks issued--were made for nonreceipt of checks.

Our sample of claims settled from October 1975 to January 1976 showed SSA took about 13 days to process a claim and submit it to Treasury.

In January 1976 SSA changed to a faster process for handling check claims. Instead of sending the physical documents through the process, claims are electronically transmitted from the district offices to SSA Headquarters and stop orders are transmitted by the Disbursing Office directly to Treasury computers (bypassing initial processing at Treasury's Division of Check Claims). If Treasury determines that a check is outstanding, a replacement is issued. But if a check was paid, the case is referred to the Division of Check Claims for further investigation.

SSA has established a goal to replace outstanding checks within 10 days from the time the local SSA office receives a claim until the beneficiary receives the replacement check. SSA has considered a goal of 30 days for paid cases. The Division of Check Claims, however, felt this unrealistic and SSA thinks it might be optimistic. As of February 1977 no system has been set up to monitor the processing time for a check claim.

SSI

In fiscal year 1976, 53 million checks were issued to SSI program beneficiaries--needy aged persons 65 and over, and needy blind and totally disabled persons regardless of age. There were 127,000 claims--about 1 for every 425 checks issued--by SSI beneficiaries for replacement of lost or stolen checks. These persons, like many other social security recipients, are dependent upon the checks for their living expenses. It was for this reason that Treasury and SSA established a goal of 10 days for replacing a lost or stolen SSI check.

To receive the expedited service an SSI beneficiary must file a claim in the same month that the original check

was issued. Treasury does not verify the status of the original check. Therefore, safeguards built into the system to prevent double payment are bypassed. Determining that a payee did not cash an original check is a time-consuming process. So, because the law does not permit payment of a replacement check if the original has been cashed Treasury presumes that the original check is outstanding, if less than a month has passed from the date of issuance to the date of the claim. If the claim is received a month or more after the date of the check, the claim follows the regular check claims process.

In fiscal year 1976, SSA conducted a study at 108 of its district and branch offices to measure the effectiveness of the SSI procedures and to identify problems with the process. The study showed that the overall check replacement time under the expedited process was approximately 12 days. The regular process of replacing an outstanding check took about 19 days and substantially longer for a paid check.

SSA processed 210,000 SSI claims. Of these, 127,000 were sent to Treasury for replacement checks. Most of the claims not sent to Treasury were rejected because of processing errors. A total of 77,000 claims received expedited service--50,000 did not because they were not initiated in the same month in which the original check was issued.

Under these processing procedures, Treasury does not verify the status of the original check before issuing a replacement and, in many cases, it turns out that both the original and the replacement checks are cashed by the payee. In these cases, SSA has agreed to absorb the cost of the duplicate payments and assume responsibilities for collection from the beneficiary. From August 1974 to August 1976, 34,056 checks for \$5,340,664--about 1,400 per month at \$155 each--were charged back to SSA because the payee cashed both the original and the replacement.

In April 1977 Treasury, under agreement with SSA, established a system to have a replacement check delivered within 4 days after a claim was filed. Like the 10-day program, claims must be made in the same month the original check was issued. We are reviewing these new procedures.

The process will work as follows. An SSI recipient makes a claim for nonreceipt of his check. The local SSA office will query the computer to find out if the person is in current payment status. If so, a claim form will be filled out and this information will be immediately electronically transmitted to SSA Headquarters in Baltimore

which in turn transmits it to Treasury's Birmingham Disbursing Office by 1 a.m. of the following morning. The disbursing office will verify that a check was issued, was not returned, and then will issue a replacement check. This check will be in the mail within 8 hours of receipt of claim data from SSA.

VA

In fiscal year 1976, 97 million checks were issued to recipients of veteran benefits. These checks provided compensation, pension, and education benefits to veterans and their survivors. About 112,000 claims for nonreceipt of checks--1 for each 875 checks issued--were made.

Our analysis showed that from January 1, 1976, through June 30, 1976, it took about 10 days to process a claim and submit it to Treasury. A VA official told us that they have a processing goal of 7 days for all payment problems including check claims but they do not specifically monitor the check claims process.

Other agencies

In fiscal year 1976, 195.4 million checks were issued for all other Government agencies (except the Internal Revenue Service) including payroll checks for those agencies previously mentioned. Most of these checks were for Department of Defense and Postal Service purposes. About 151,000 claims--1 for each 1,300 checks issued--were made for nonreceipt of checks.

Our analysis showed that from January 1, 1976, through June 30, 1976, it took these agencies about 14 days to process a claim and submit it to Treasury.

CHAPTER 3

EXPEDITING CHECK REPLACEMENT

MEANS MORE RISKS AND EXPENSE

BUT HOW MUCH HAS NOT BEEN DETERMINED

Treasury officials have sought to improve the check claims process. Treasury statistics show that productivity increased 43 percent from fiscal year 1971 to fiscal year 1975 while costs increased by only 5 percent. This increased productivity was cost oriented and not the result of working toward a specific processing time goal.

Treasury, however, recently implemented or is considering improvements which could shorten the processing cycle. Precisely how much shorter and whether the resulting time frame will meet the needs of the claimants are unknown. Also being considered are some variations of the SSI process in which replacement checks are issued before it is determined whether the original check is outstanding or paid. All of the alternatives available could mean more risk and/or expense but how much has not been determined.

IMMEDIATE REPLACEMENT POSES PROBLEMS

Probably the most timely action for replacing a lost or stolen check (with the exception of paying the claimant upon presentation of the claim) is to replace the check before determining whether the original has been paid. This is the process used for SSI checks (see ch. 2) if the claim is filed within the current month of the original check.

This procedure, however, results in duplicate payments to a number of recipients. Recovery of these payments is not that certain. For example, in calendar year 1975, Treasury received 110,030 claims on SSI checks, of which 70,044 (64 percent) fell within the current month. A total of 13,910 claims (20 percent of all immediate payments) resulted in checks for \$2,235,377 that were duplicate payments because the claimant cashed both the original and the replacement.

For a 2-year period ending in August 1976, duplicate payments amounted to \$5.3 million. SSA has begun to collect but does not know how much has been recovered. An official said that duplicate payments are a small portion of overpayments; therefore, they are not classified separately when collections are made. Because of the single overpayment

classification of collections, SSA is not determining the repayment amount of duplicate payments.

Recovery of duplicate payments could be slow and uncertain. For example, an SSA official said that deductions from future benefits for duplicate payments cannot be made without advising the claimant of his rights to appeal this type of action. The claimant may request a conference with agency officials to discuss the circumstances of the case or he may request the matter be reviewed under a reconsideration process. After reconsideration, SSA can withhold payments from future checks if it is determined that the claimant must refund the money. The claimant may appeal this decision and request a formal hearing by an administrative law judge. Further appeals can be taken to an Appeals Council and to a civil court. If the appeal is granted, SSA must return the money withheld.

Because the amount of money involved in individual cases is small, the administrative costs of recovery could exceed the amount recovered. For example, an SSA official estimated that the cost of an initial conference is \$50, that of the reconsideration process is \$50 to \$100, and that of a hearing could be as high as \$300. The average duplicate payment is estimated to be \$155. In the end, many claimants are not in a financial position to make restitution.

SSA officials state that, because of the administrative costs involved, hardly any of the cases go all the way through the process. Somewhere along the line, SSA either waives the duplicate payment or the person agrees to return the overpayment.

In addition to risks of duplicate payments, Treasury maintains that to provide other agencies the expedited processing afforded SSI claims would require agencies to improve their communication systems at added unknown expense.

VARIATIONS OF THE IMMEDIATE REPLACEMENT PROCESS

In July 1976, SSA proposed to Treasury other ways of expediting the issuance of replacement checks to regular social security program recipients.

One proposal was the Immediate Payment Critical Case system. When a claimant asserts he needs, but has not received, a replacement check, the local SSA office determines if his needs are critical. If so, Treasury is requested

to immediately issue another check even though it has not determined whether the original check was outstanding or paid.

Another proposal would authorize the SSA district office to monitor the processing of all claims and, if a claim was not settled after a specified time, request Treasury to immediately issue a replacement check. Complaints by the claimant would not be required.

The Director of the Check Claims Division stated that Treasury has met with SSA officials and is currently considering these and other proposals.

ADMINISTRATIVE IMPROVEMENTS

Much of the productivity improvement is attributable to new procedures and workflow within the Division. The following schedule shows these improvements.

<u>Fiscal year</u>	<u>No. of employees</u>	<u>Completed cases</u>	<u>Cases per employee</u>	<u>Cost per claim</u>
1971	353	732,344	2,075	\$4.86
1972	372	763,401	2,052	5.53
1973	368	787,502	2,140	6.11
1974	378	924,877	2,447	4.88
1975	389	1,156,402	2,973	5.10

Within Treasury there are actions either being implemented or under consideration which should shorten the processing time for check claims.

A December 19, 1976, memorandum to the Fiscal Assistant Secretary, from the Commissioner, Bureau of Government Financial Operations, led to the formation of a Bureau steering committee and task forces. The task forces will concentrate on (1) implementing the feasible automation changes proposed in previous studies, (2) documenting operational procedures, (3) measuring performance and productivity achievements for all units, and (4) considering the need for legal changes such as a change to the statute of limitations on how long a person has to file a claim. He said that the first short-term objective will be to establish a simple, reliable reporting system to monitor progress on meeting the time goals.

The memorandum also established overall time goals for other than SSA and SSI claims, from the time Treasury received the authorizing agency's request for stop payment through the time the claimant should receive the replacement check. For example, for March 1977, a goal of 49 days was established

to replace a paid check. For June 1977, it was 38 days and for October 1977, 37 days. The overall goal for replacing an outstanding check is 15 days for all three time periods.

However, the faster the process the greater the chance of duplicate payments. Expediting the process will result in more checks being shown as outstanding because of time required for the original check to clear the banking system and be returned to Treasury. As noted on page 5, under the current claim processing procedures, 510,000 claims involved paid original checks. Of these claims, 320,000 (63 percent) were either abandoned by the claimants or denied by Treasury presumably because the claimants had cashed the original check. Under expedited processing, replacement checks might have been issued to these claimants with the attendant risk that they would have cashed them.

Expediting check clearing

In June 1976, Treasury and the Federal Reserve System began testing a system designed to accelerate the clearing of Treasury checks and to facilitate subsequent access to paid checks. The Federal Reserve has approved the system and will start phasing in the process in December 1977. The system should be fully operational in April 1978.

Previously, when checks were received at a Federal Reserve Bank, the accounts of the presenting banks were credited and the checks and a listing of them were shipped to Treasury for reconciliation. At Treasury, the checks were read into a computer and 10-digit locator numbers were assigned to each check. The checks were filed by batch to facilitate retrieval and shipped to the Federal Records Center in Mechanicsburg, Pennsylvania.

When the Check Claims Division needed a check photocopied, the locator number was retrieved from either magnetic tape, microfilm, or hard copy; then the check was located and sent to the Division.

The new system will decentralize the storage of paid checks to most of the Federal Reserve Districts. Check data will be recorded on magnetic tape and sent to Treasury for reconciliation. The Federal Reserve Banks will also microfilm both the front and back of all checks and this microfilm copy will be kept at the Division.

There will be no need to retrieve the original check when only a copy is required. Once the locator number is obtained the Division will only have to go to the designated

roll of microfilm and make a copy on a microfilm reader/
printer.

Reduced cost and increased efficiency in the check
clearing operation were the primary reasons for the new sys-
tem. There will be a saving of time in processing a check
claim but it has not been measured.

CHAPTER 4

WAYS TO REDUCE THE NEED FOR REPLACEMENT CHECKS

There are two programs which, if fully implemented, could significantly reduce the need for replacement checks. These are direct deposit/electronic funds transfer and check cycling.

Treasury estimates that the former program would eventually eliminate about 40 percent of checks issued for recurring payments. Thus, an estimated 216 million checks per year would never have to be issued.

Check cycling would spread the payments made to social security and other beneficiaries throughout the month instead of making all payments at the beginning of each month.

Both programs should result in fewer checks being lost or stolen and, hence, fewer claims for replacement checks.

The electronic funds transfer program was available to most social security recipients by January 1977; the check cycling proposal is being considered by the Office of Management and Budget. The outlook for the former is promising but the 40-percent participation rate Treasury anticipates is uncertain. Treasury has been proposing check cycling for over 25 years.

DIRECT DEPOSIT/ELECTRONIC FUNDS TRANSFER PROGRAM

This program has three major benefits.

1. To the beneficiaries--improved service through the elimination of check loss, theft, and forgery; the elimination of check cashing problems; and the convenience of uninterrupted deposits.
2. To the financial community--reduced operating and forgery costs as well as increased deposits; a more efficient new depositors system; and improved customer relations.
3. To the Government--reduced costs in the issuance and clearance of checks.

The Government is authorized to make recurring Federal benefit payments directly to financial organizations at a beneficiary's request. Participation is entirely voluntary.

Under the direct deposit program, an individual's payment was sent directly to a financial institution of his or her choice. Under the electronic funds transfer program, which has superseded direct deposit, payment is made electronically and no physical check is issued.

Outlook for program

Treasury estimates that direct deposit/electronic funds transfer will save the Government \$25 million annually by 1980. This program is expected to reduce the number of lost and stolen Government checks--thus reducing the number of check claims. Whether the program will significantly reduce the number of checks stolen or lost depends on whether those most often victimized--such as people living in areas with high crime rates--participate. These people may not have a bank account, may not trust banks, and/or would prefer to receive the check at home.

Treasury is optimistic that its goal of 40-percent participation by 1980 will be achieved. Florida which was a pilot State and subjected to an intensive promotional campaign, has the highest participation rate--29 percent--of all the States. As of June 1976, 48 States and territories out of a total of 55 had participation rates of less than 20 percent. Treasury is planning to send information on direct deposit/electronic funds transfer to claimants in an attempt to have them participate in the program and reduce the chances of check loss or theft.

CHECK CYCLING

For over 25 years Treasury has been proposing cycling monthly social security payments. Cycling involves spreading the release of checks several dates throughout each month. Treasury wrote about 35 million social security and SSI checks each month during fiscal year 1976; all were mailed out around the first of the month. Some advantages of cycling are

- smoothing out and streamlining Government check clearing and reconciling peak load operations,
- reducing Government check thefts and forgeries because checks would be reaching individuals at

different times of the month making it difficult for a thief to know when a particular person receives his check,

- alleviating check cashing peak loads for banks which occur at the beginning of each month when social security checks are issued, and
- reducing space requirements in the disbursing offices because storage facilities for social security checks which are written throughout the month and held for a mass mailing on the first of the next month will no longer be needed.

The disadvantages of cycling are:

- Internal control problems. There is only one deadline to meet under current procedures. Under cycling there would be a number of deadlines which SSA feels it could not meet.
- SSA would have the expense of reprogramming its system for the transition into cycling.

Treasury estimates that cycling would save it \$2,578,000 per year if implemented.

Treasury has presented the cycling proposal to the Office of Management and Budget for consideration. In January 1977 the Assistant Fiscal Assistant Secretary said that Treasury officials had met with Office of Management and Budget officials during 1976 but that no positive action has been taken on cycling.

CHAPTER 5

CONCLUSIONS

Replacement time for a lost or stolen Government check varies depending on which agency authorized the original check and whether the original check has been paid or is outstanding.

The recipients of SSI checks receive the fastest replacement of lost or stolen checks because of their perceived need. This group, which accounts for 13 percent of all check claims, has been receiving replacement checks in 12 days but Treasury and SSA have established a system to reduce the time to 4 days. To achieve the SSI check time requires unique processing procedures. Under these procedures, there is increased risk of duplicate payments. Recovery of these duplicate payments--averaging about \$155--can be a problem in terms of administrative expense as well as the inability of some claimants to make restitution.

Other programs--Social Security and Veterans--also provide recurring payments. The nonreceipt of these may also be an immediate hardship for some intended recipients. For these programs, check replacement time in fiscal year 1976 averaged from 22 to 85 days. Steps are being taken to shorten the normal check replacement process, but the resulting time frames may not be satisfactory. As of March 1977, 8 bills on this subject had been introduced in the 95th Congress, most requiring, among other things, that replacement time frames for all SSA claims be 10 days or less. Treasury officials assume that the time frame would be applicable to all claimants receiving recurring payments including those in the Civil Service Retirement and Railroad Retirement programs.

Providing the needed capability to expedite check processing would involve unknown additional expense. Also, the 10-day time frame will mean bypassing the safeguard of determining whether the original check has been cashed before Treasury issues a replacement or expediting that determination. This will probably result in more duplicate payments.

Treasury received 1 million claims for replacement checks in 1976. In many cases the original checks were cashed and the claimants abandoned the claims. Under expedited processing, most of these original checks would

have been classified as outstanding and replacement checks issued.

Replacing lost or stolen checks presents the Government with the dilemma of minimizing recipients' hardship without incurring excessive costs and risks. Decisions to expedite the current replacement process are difficult to make without adequate data on the timeliness, costs, and risks of the various alternatives. Such data is not available.

Treasury and the agencies involved are working toward developing the number of duplicate payments resulting from expedited processing; the costs of recovering these payments; the number uncollected; a profile of those making claims, particularly their need for immediate check replacement; and the impact of electronic funds transfer and other means of assuring that the rightful payee obtains Federal funds. This type of data should help the Government solve the check replacement dilemma.

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COMMITTEE ON THE JUDICIARY

COMMITTEE ON THE BUDGET

Congress of the United States
House of Representatives
Washington, D.C. 20515

March 26, 1976

B-164031(4)

Comptroller Elmer B. Staats
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

Several hundred of my constituents have complained to me about the great difficulties encountered when government checks, on which many people depend for day-to-day survival, are lost or stolen.

Replacement of Supplementary Security Income checks which, according to Social Security regulations, should take no longer than 10 days, takes from 3-5 weeks. No emergency procedures exist to expedite replacement of Social Security or Veterans benefits checks; the process can, and frequently does, take months. Such delays work intolerable hardship on those who very literally rely on these checks to live.

The problem with S.S.I. checks appears to be an overlong procedure in Treasury for sending the replacement since the Social Security office reports a missing check to Treasury within one day after a claim is filed. As far as Social Security and Veterans benefits are concerned, my staff tells me that Treasury personnel have stated that one of the major reasons for lengthy delay is the Secret Service fraud investigation. Virtually all recipients of Social Security and Veterans benefits, are continuing beneficiaries -- a fact which can be verified easily in an individual case by the Social Security or Veterans Administration. If an improper check is issued, on the basis of a fraudulent report of loss, overpayment can be recouped from future benefits. Stringent penalties for fraud, already provided for in the law, can be enforced. It seems to me that replacement checks could be immediately issued in the vast majority of cases without jeopardizing any legitimate government interest.

Comptroller Elmer B. Staats:

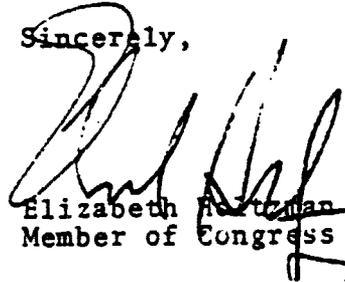
March 26, 1976

In fact, several interests would be served by such a procedure. The beneficiary would receive his or her payment quickly, avoiding the harsh effects delays cause for these people now living on the strictest and most minimal budgets. Additionally, comprehensive investigation of the facts and circumstances attendant on each case could be undertaken without the necessity of arriving at a decision under pressure.

I have asked Secretary Simon to consider this matter, but because the problems raised by the current replacement procedures are so serious and affect so many thousands of impoverished Americans, I would appreciate your studying the question as well, with the objective of suggesting means by which current replacement procedures could be expedited.

Thank you very much for your attention to this matter. I look forward to hearing from you at your earliest convenience.

Sincerely,



Elizabeth Hartman
Member of Congress